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DIRECTORATE OF  
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1. CYPRUS

The intensity of the immediate crisis over Cyprus is likely to stimulate initiatives looking toward a new modus vivendi among the parties, although the prospects of any fundamental solution are still dim.

Turkey believes that it is under severe pressure to extract the maximum concessions from the Greeks, using the US as an intermediary. Ankara has suggested to the US ambassador that the removal of the "illegal" Greek presence on the island--some 5,000 to 12,000 military personnel--and restitution for the damage from the most recent fighting would be a useful first step. Following this, the broader aspects of the whole problem could be considered. Ankara has further asserted that in any event it cannot condone further Greek or Greek Cypriot attacks on the Turkish Cypriot community.

Athens' present position is not clear. While it tends to blame General Grivas for the crisis, it is clear that Grivas' initial moves, at least, were coordinated with the Greek military. The Greek Government will certainly regard its removal of Grivas from the island and the promises Makarios has made to give relief to the ravaged villages as having gone far in meeting the Turkish demands.

Athens, however, will find it very difficult to agree to remove the Greek "illegals," particularly if this demand is put in the form of an ultimatum. Moreover, there is no reason to believe that the junta can easily be sold any solution short of some form of enosis (union) with Greece.

Makarios' position probably is in some disarray. He may now be agreeable to gestures that would calm the current tensions, but he is unlikely to agree to any plan that would basically alter the political status quo on the island. His basic objective still appears to be to maintain a large measure of autonomy, if not outright independence, for his government while retaining Greek mainland support to hold off Turkish pressure.

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2. THAILAND

Bangkok is taking a tough line in negotiating a status-of-forces agreement with the US.

The chief Thai negotiator recently suspended further discussions until the US agreed to Thai wording on several draft articles. He told US officials that the criminal jurisdiction issue was the key problem, and stated that his government would not grant the broad authority the US enjoyed in other countries.

He also said that Bangkok would prefer no agreement at all to protracted negotiations or to a treaty which did not reflect the "unique" relationship between the US and Thailand. He stated that if a satisfactory solution was not reached soon, the Thai Government would begin to exercise jurisdiction over US military personnel in many types of cases in which it has heretofore waived responsibility.

This unyielding position reflects the traditional sensitivity of the Thais to anything which they view as impinging on their sovereignty. Bangkok leaders have consistently taken the position that the US military presence in Thailand differs from that in other countries and that any formal status-of-forces agreement must not imply that the US has a legal right to maintain military bases there. The Thai negotiator, for example, has argued that the US forces were not "invited" into the country but were there as a result of Thai acquiescence.

The Thai position is also motivated by a desire to undercut domestic criticism that the Bangkok leadership is not sufficiently solicitous of Thai national interests in relations with the US. Increased domestic political activity in preparation for elections expected next year will put further strains on US-Thai relations in the coming months.

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3. INDIA

Despite the fact that Indian military expenditures have remained within previously planned budgetary limits, there is growing concern about the increased pace of Soviet military aid deliveries to New Delhi.

The USSR has agreed to provide India with about \$675 million worth of military equipment, of which \$525 million has been contracted for since 1964. In so doing the USSR has become India's major supplier of arms. This relationship, which began in 1960 with the purchase of some transport aircraft and helicopters, subsequently expanded to include such items as tanks, MIG-21 jet fighters and factories to produce them, and surface-to air missiles. Arms purchases from Western sources, meanwhile, have dropped below the planned level as a result of the US-UK embargo on the supply of lethal military equipment to the sub-continent following the 1965 Indo-Pak war.

The hard currency expenditure for the military budget originally envisioned under the Five-Year Defense Plan (1964-69) has not in fact been realized even though some additional arms purchases have been necessitated by the lag in indigenous arms production programs. India recently announced the purchase of 127 SU-7 Fitter fighter bombers and 12 SU-7 trainers from the USSR, billing them as substitutes for aircraft unavailable from the lagging HF-24 aircraft production program. These new purchases will be paid for in rupees over a ten-year period, thus spreading out payments beyond the plan period. Repayments on the total Soviet military aid debt are expected to amount to about \$70 million annually in 1968-69.

4. CHILE-PERU

Recent political developments in Chile and Peru may cause US investors to shy away from these countries.

Chilean President Frei may be forced to ask the US-owned copper companies to invest locally the profits they have made as a result of high copper prices or pay their taxes in advance. Although such action would run counter to the copper agreements signed last year and thus reduce Chile's attractiveness to new investors, it is the price some politicians are asking for support of the President's controversial 1968 wage-price policy. Frei considers the legislation vital to his stabilization program, which is aimed at curtailing the inflation that has plagued Chile for more than 50 years.

In Peru, the government has decided to take the International Petroleum Company (IPC)--a subsidiary of Standard Oil--to court in an attempt to collect taxes on IPC profits for the last 15 years. The government also wants the company to pay taxes it alleges the company has owed since 1959.



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5. UNCTAD

Underdeveloped countries are unlikely to be satisfied with the proposals to be presented in February at the second plenary session of the United Nations Conference on Trade and Development (UNCTAD) in New Delhi.

At this session the developed countries will offer preferential tariff treatment for products manufactured in underdeveloped countries--goods which account for about 10 percent of the latters' exports. Manufactured goods constitute the poor countries' fastest growing segment of exports, but their share of world trade in these products has shrunk because of their inability to keep pace with competition from industrial countries. The proposed tariff concession is offset to some extent by import quotas. For example, textiles, the largest single manufactured export item from less-developed countries, are almost universally subject to quantitative import restrictions.

The underdeveloped countries will push hard for commodity agreements to support and stabilize declining prices of raw materials and agricultural products that comprise most of their foreign trade. Some progress is being achieved in this field, but such agreements often are self defeating, driving importers to seek less-expensive substitutes or to encourage domestic production.

The growing burden of debt service which cuts into the capacity of disadvantaged countries to import goods for sustaining economic progress also will be brought up at New Delhi. At the present rate of foreign lending to underdeveloped countries and corresponding repayments, net lending will be zero in just a few years. No developed country currently proposes to expand foreign aid, and the poor countries are certain to remind the conference that few have met UNCTAD's goal of providing one percent of national income as aid to underdeveloped countries.

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